



# SLR Investment Corp. (SLRC)

Updated May 23<sup>rd</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$14.12	<b>5 Year CAGR Estimate:</b>	9.1%	<b>Market Cap:</b>	\$768.1 M
<b>Fair Value Price:</b>	\$15.87	<b>5 Year Growth Estimate:</b>	-2.2%	<b>Ex-Dividend Date:</b>	05/23/23
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.4%	<b>Dividend Payment Date:</b>	06/01/23
<b>Dividend Yield:</b>	11.6%	<b>5 Year Price Target</b>	\$14.19	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## Overview & Current Events

SLR Investment Corp. is a closed-end, externally managed, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”). The company invests primarily in leveraged middle-market companies with annual revenues typically between \$50 million and \$1 billion. They do so in the form of senior secured loans, financing leases, and to a lesser extent, unsecured loans and equity securities. SLR’s investments generally range between \$5 million and \$100 million each. On March 31<sup>st</sup>, 2023, SLR Investment’s portfolio consisted of 145 companies with exposures of 23.3% in senior secured loans, 33.3% in asset-based senior secured loans, 32.1% in equipment senior secured financings, and 11.1% in life science senior secured loans. SLR Investment Corp. generates around \$180 million in total investment income annually and is based in New York, New York.

On May 10<sup>th</sup>, 2023, SLR Investment Corp. reported its Q1 results for the period ending March 31<sup>st</sup>, 2023. For the quarter, total investment income totaled \$54.5 million, 62.1% higher year-over-year. The increase was primarily due to a larger portfolio as well as an increase in rates. Expenses totaled \$31.5 million, 61.5% higher compared to last year. The slightly softer increase in expenses was primarily due to SLR’s management fees growing by just about 7%. Thus, net investment income grew by a satisfactory 63.7% to \$22.1 million. On a per-share basis, net investment income grew by nine cents to \$0.41 (up about 28% year-over-year), due to the additional shares utilized to fund the company’s investments. We now forecast NII/share to land close to \$1.60 for fiscal 2023.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>NAV/shr</b>	\$22.50	\$22.05	\$20.79	\$21.74	\$21.81	\$21.75	\$21.44	\$20.16	\$19.93	\$18.33	<b>\$18.04</b>	<b>\$16.14</b>
<b>NII/shr</b>	\$1.91	\$1.56	\$1.52	\$1.68	\$1.62	\$1.77	\$1.71	\$1.40	\$1.43	\$1.48	<b>\$1.67</b>	<b>\$1.49</b>
<b>DPS</b>	\$2.00	\$1.60	\$1.60	\$1.60	\$1.60	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	<b>\$1.64</b>	<b>\$1.47</b>
<b>Shares<sup>1</sup></b>	44.2	42.5	42.5	42.2	42.3	42.3	42.3	42.3	42.3	52.4	<b>54.6</b>	<b>80.0</b>

With nearly 77.7% of SLR Investment Corp’s income-producing investment portfolio attached to floating rates, the company’s net investment income had been under pressure over the past few years. On the one hand, with interest rates on the rise, the company’s bottom line should benefit. Further, with the base annual management fee down from 1.75% to 1.5% following the recent merger with SUNS, net margins should rise. However, going back to our coverage of SUNS prior to the merger, we believe that the company’s investment portfolio appeared rather weak. Thus, it’s uncertain whether SLR’s net investment income will actually benefit from the merger. In addition, the company revised the distribution policy post-merger, now making monthly distributions instead of quarterly. However, distributions have historically, and especially lately, exceeded the underlying NII generation. This has resulted in the company’s NAV/share declining over the past few years. A lower NAV leads to lower NII (smaller asset base), and so on. Thus, we believe that unless the recent merger and rising rates boost results, the company’s NII/share DPS will eventually decline in the coming years. While DPS may not decline annually, we have set our NAV/share, NII/share, and DPS CAGR estimates at a negative 2.2% each over the medium-term, reflecting the ongoing NAV deterioration rate.

<sup>1</sup> Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/NII</b>	12	13.1	11.5	11.9	13.1	11.9	12.0	11.4	10.6	10.3	<b>8.5</b>	<b>9.5</b>
<b>Avg. P/NAV</b>	1.02	0.93	0.84	0.92	0.97	0.97	0.96	0.79	0.94	0.83	<b>0.78</b>	N/A
<b>Avg. Yld.</b>	8.7%	7.8%	9.2%	8.0%	7.5%	7.8%	8.0%	10.3%	10.9%	10.8%	<b>11.6%</b>	<b>10.3%</b>

Since SLR's distributions started exceeding the underlying NII generation, shares have been trading at a discount to NAV as investors are already pricing in NAV's continuous deterioration. Shares are currently trading at a 22% discount to NAV. Thus, the yield has climbed to notable levels as investors demand a higher return for the underlying risks attached. At its current price levels, we believe the stock is rather undervalued. On May 9<sup>th</sup>, 2023, the BoD approved a \$50 million share buyback program to address the discount to NAV. Still, only \$3 million worth of buybacks have taken place so far.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

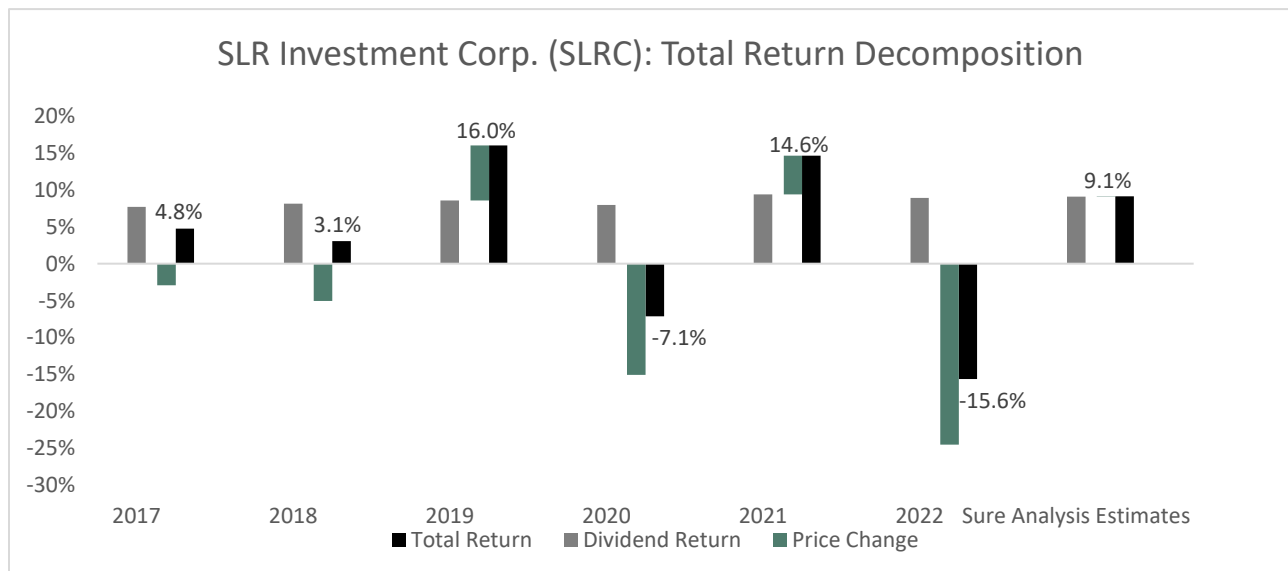
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	105%	103%	105%	95%	99%	93%	96%	117%	116%	---	<b>98%</b>	<b>98%</b>

While SLR may continue to deteriorate its NAV to sustain the current distribution rate, we don't believe that this is a viable strategy over the long run. A sudden cut may occur, similar to 2013. It's worth noting that SLR's portfolio primarily consists of loans associated with equipment financings, corporate leases, and other asset-based lendings. Therefore, a potential recession that could reduce demand for such equipment amid reduced corporate CAPEX could further impact SLR's results. SLR maintains an investment grade rating from both Moody's (Baa3) and Fitch's (BBB-), nonetheless.

## Final Thoughts & Recommendation

SLR Investment Corp is a unique BDC, with its focus on asset-based senior secured loans and equipment financing, distinguishing it from its more traditional peers. While the recent merger and rising rates could benefit the company, we believe that the ongoing NAV deterioration will persist at the current distribution rate. We forecast annualized returns of 9.1% through the medium-term, as valuation tailwinds and dividend returns from the sky-high yield could be offset by declines in NII and DPS. Shares earn a hold rating. But, again, investors should not blindly trust the dividend.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	86	57	21	117	82	76	66	24	70	28
<b>SG&amp;A Exp.</b>	10	9	8	10	9	9	8	8	10	12
<b>Net Profit</b>	75	48	14	107	70	67	56	15	60	18
<b>Net Margin</b>	87.7%	84.7%	68.2%	91.2%	85.8%	87.7%	84.4%	65.5%	85.7%	64.3%
<b>Free Cash Flow</b>	799	157	(498)	148	(243)	191	188	(61)	(135)	91

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	1,708	1,686	1,617	1,651	1,642	1,683	1,950	1,936	2,011	2,538
<b>Cash &amp; Equivalents</b>	585	635	278	312	151	207	436	389	323	428
<b>Total Liabilities</b>	713	750	735	732	720	764	1,044	1,084	1,169	1,538
<b>Accounts Payable</b>	474	511	19	329	165	273	441	401	342	433
<b>Long-Term Debt</b>	225	225	430	387	539	474	587	671	812	1,086
<b>Shareholder's Equity</b>	996	937	883	919	922	919	906	852	842	1000
<b>LTD/E Ratio</b>	0.23	0.24	0.49	0.42	0.59	0.52	0.65	0.79	0.96	1.09

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	4.8%	2.9%	0.9%	6.5%	4.3%	4.0%	3.1%	0.8%	3.0%	0.8%
<b>Return on Equity</b>	8.0%	5.0%	1.5%	11.9%	7.7%	7.3%	6.1%	1.8%	7.0%	2.0%
<b>ROIC</b>	5.8%	4.1%	1.1%	8.2%	5.1%	4.7%	3.9%	1.0%	3.7%	1.0%
<b>Shares Out.</b>	44.2	42.5	42.5	42.2	42.3	42.3	42.3	42.3	42.3	51.7
<b>Revenue/Share</b>	1.93	1.33	0.49	2.77	1.94	1.80	1.57	0.56	1.65	0.55
<b>FCF/Share</b>	17.92	3.65	(11.7)	3.51	(5.76)	4.52	4.44	(1.45)	(3.20)	1.76

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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